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Delaware Transit Corporation
Dover, Delaware

October 12, 2006

Ladies and Gentlemen:

We have audited the financial statements of Delaware Transit Corporation (DTC), for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006. In planning and performing our audit of the financial statements of DTC, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached Appendix A.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the DTC's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department of Transportation, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



Appendix A – Management Letter Comments Delaware Transit Corporation

Reconciliation of GFI reports

Observation

DTC has a computerized system that is used to validate the cash received for fares collected on its vehicles against the ridership. Each day the fare boxes information is removed from the vehicles and the information is downloaded into the GFI system. The fare collections are removed from the vehicle and deposited by different personnel. The deposits are reconciled to the GFI system each day by fiscal office personnel, but the documentation of the reconciling items are not maintained with the reconciliation spreadsheets.

Recommendation

We recommend that reconciling items researched as part of the DTC policy be documented, maintained centrally, and available for subsequent review.

Management Response

DTC has a reconciliation process that is formalized as documented in Section A (2) the Accounting Policies and Procedures Manual.

We agree that documentation of reconciling items should be maintained centrally and easily assessable.

Personnel Action Forms

Observation

DTC has a human resource department, which is responsible for maintaining Personnel Action Forms, which document changes to the payroll system for employees of DTC. The changes can include, pay rates, personnel classifications and other critical information. The Personnel Action Form is to be signed off by the supervisor and maintained in the individual's file. We tested 30 employee actions and 3 of the forms were missing or not complete at the date of testing.



Recommendation

We recommend that the Human Resource department run a report on a weekly basis of all personnel actions and review the employee files to ensure that the changes have been properly approved.

Management Response

Beginning February 2006 the HR PS section began doing all Job Data entry which centralized the control of data entry. Later the audit sheets (check list) were developed and implemented to ensure accuracy of the files.

GASB Pension Accounting

Observation

DTC maintains two defined benefit pension plans outside of the Delaware State Employees Retirement System. These plans are funded with contributions from DTC based on actuarial studies and union contracts. The actuarial studies do not include all of the information in a format that is consistent with GASB #25 and #27 requirements, and as a result DTC has difficulty supporting the required disclosure and accounting in its financial statements.

Recommendation

We recommend that DTC work with their actuary and accountants to ensure that the information included in the actuarial reports and financial statements is in compliance with the requirements of GASB #25 and #27.

Management Response

DTC has consulted with both their accountant and actuarial consultant. DTC will present this information in future audits and will ensure that they are in compliance with the requirements of GASB #25 and #27.